



# County of San Diego

## DEPARTMENT OF PUBLIC WORKS

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July 15, 2004

Mark McClardy  
Manager, Airports Division AWP-600  
Federal Aviation Administration  
Western-Pacific Region  
15000 Aviation Blvd., Room 3024  
Lawndale, CA 92061

Dear Mr. McClardy:

### COMPREHENSIVE RESPONSE TO COMPLIANCE ADVISORY FOLLOW-UP LETTER

This correspondence is written in response to your May 17, 2004, compliance advisory follow-up letter. This letter provides a comprehensive response to all 17 items detailed in your letter, including a review of the individual item responses we have been sending you since we received your request.

#### Cajon Plaza

- 1. The county will complete the Airport Layout Plan Narrative Report as expeditiously as possible and consult regularly with the Western Pacific (AWP) Airports Division as it does so.**

The public review process for the ALP / Narrative Report has been completed. The document will be submitted to the San Diego County Board of Supervisors on September 22, 2004. At that time, the Board will be asked to approve submittal of a grant application for a Master Plan update for Gillespie Field. As discussed in our July 14, 2004 meeting with John Milligan, Tony Garcia and George Buley, Sherry Miller will be submitting a request to Margie Drilling to update the FY 2005 ACIP to accelerate this project from FY 2010. Additionally, Ms. Miller will be submitting a grant application for this project.

Regarding consulting regularly with AWP:

- San Diego County Airports staff coordinated with both Margie Drilling and John Milligan regarding the ALP / Narrative Report. The outcome was an understanding of environmental considerations and the need for a Master Plan update.
  - Ms. Drilling provided a final punch list and P&D Aviation has incorporated the requested changes into the ALP / Narrative. P&D Aviation is currently working with George Buley on an issue with the RVZ. We anticipate providing you with a final document by mid-August.
  - Due to lessee requests, County Airports sent a letter to AWP staff requesting an additional comment be added to the ALP (included in Attachment 1). In subsequent correspondence from FAA this request was denied.
  - AWP staff was provided with copies of County Airports letters of response to ALP comments from City of El Cajon, City of Santee and the public. Copies of these responses are provided as Attachment 1.
- 2. The county will notify AWP of the official expiration date(s) of lease(s) on the Cajon Plaza parcel as soon as possible.**

The expiration of the Cajon Plaza parcel lease is August 15, 2005. Enclosed for your reference is a copy of the 1982 California Court of Appeal case that affirms that Cajon Plaza's contention that the termination date of the lease is in the year 2010 versus 2005 is without merit. A copy of this document, which was provided to AWP on June 2, 2004, is included as Attachment 2. Please refer to the language on pages 1 and 2 of this case in which the Court of Appeal affirms the lower court's interpretation of the termination date.

County Airports plans to complete a Master Plan update, including an EIR for this parcel, followed by an RFP to develop the 70-acre site for aeronautical use. The AWP will be included in the process.

#### **Non-Aeronautical Leasing Activities in Aeronautical Facilities**

- 3. The county will revise and provide AWP with a copy of the updated Section (e) of Exhibit G to the county lease form that contains language stating that**

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**advance written concurrence by the FAA is required for non-aeronautical uses of airport property.**

Section (e) of exhibit G to the County lease form has been revised as requested and will be used for all new leases. A copy of the revised exhibit, including strikeout and underlined changes, was provided to AWP on June 4, 2004, and is included as Attachment 3.

- 4. The county will confirm that unauthorized and unnecessary non-aeronautical uses of airport facilities are being terminated and will end within 12 months.**

Hangar inspections of all Gillespie hangars are being completed between June 18, 2004 and July 15, 2004. Noncompliance issues will be evaluated following completion of inspections and follow-up letters advising lessees of findings will be sent by August 16, 2004. Copies of both hangar inspection findings and related letters to Master Lessees will be provided to you by August 20, 2004. We will keep you advised of final corrective actions.

#### **Residential Hangars**

- 5. The county will not approve construction of new hangars containing residential dwelling units on the La Jolla Investment Company leasehold.**

A letter advising La Jolla Investments that the County will not approve construction of new hangars on the leasehold containing residential dwelling units was mailed to La Jolla Investments on July 14, 2004. A copy was also forwarded to AWP on July 14, 2004.

- 6. The county will not permit any additional residential development at any San Diego County airport. The county will take action to prevent residential dwelling units from being established on airport property, including those that are currently being negotiated.**

Changes to County Airports aviation lease "Exhibit C, Aviation Area Development Standards" have been made, as previously requested by Tony Garcia. The exhibit is being used for all new leases, including those currently in negotiation. A copy of the document with highlighted changes, which was forward to AWP on June 4, 2004, is provided as Attachment 4.

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In addition to revising Development Standards, on July 2, 2004, a letter was sent to all current aviation master lessees at all County of San Diego airports advising the following:

“County Airports has been directed by the Federal Aviation Administration (FAA) to take action to prevent development that could result in the residential use of aviation land. In response to this request, County Airports will not approve any new development plans or tenant improvements that include residential facilities, including crew quarters or care taker residences, without the written consent of the FAA.”

A copy of this letter, which was sent to AWP on July 2, 2004, is provided at Attachment 5.

These actions will aid in addressing AWP concerns regarding the prevention of future residential dwelling units being established on Airport property.

#### **Grant Assurance 24 Fee and Rental Service**

- 7. The county will adhere to its Airport Leasing Practices and apply a rates and charges methodology to make the airport as self-sustaining as possible by adjusting aeronautical rates to more accurately reflect economic and market conditions at its airports.**

Supervising Real Property Agent Lee Ann Lardy is completing a report on aeronautical lease rates at each of the County airports and how they have been set in the past. The report will include sample standard lease language pertaining to periodic negotiated rental adjustments and annual CPI increases. This report will show that in many cases aeronautical rates do accurately reflect economic and market conditions and will include background information that explains any discrepancies. Finally, the report will address the future, including when the existing leases next allow the opportunity to adjust rental rates and detail the methodology that County Airports plans to use to set lease rates for both rental adjustments and new aeronautical leases, such as at Cajon Air Center. The report on lease rates will be sent to AWP by July 30, 2004.

- 8. The county will provide AWP with the new County Airport Rules and Regulations, Minimum Standards, Rates and Charges, and revised Policy and Procedures by July 30, 2004.**

Draft Minimum Standards were forwarded to AWP for review on June 30, 2004. A copy of the draft document is provided as Attachment 6. We are currently

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reviewing July 10, 2004 comments from Tony Garcia. A revised draft will be provided to you for review by August 30, 2004

Principal Airport Manager Sherry Miller is currently developing an outline for both Rules & Regulations and Policies & Procedures, and she will be preparing draft documents over the next several months. Both draft documents will be provided to AWP by October 30, 2004, for review and comment. Following receipt of your comments, which we anticipate you will provide within 45 days of receiving our draft, we will make any necessary revisions. Both documents will then be taken to airport advisory groups, and finally to the San Diego County Board of Supervisors for adoption as ordinances. We anticipate this entire process will be completed no later than May 2005.

#### **Grant Assurance 25 Airport Revenue**

- 9. The county will provide AWP with a report from its financial consultant by July 1, 2004, detailing the Marshall Avenue project loan information, which shall include the loan amount, amounts paid to date, the interest rate on the loan, and the amortization schedule for completing payments in full.**

You have requested a financial consultant report that details information specific to Marshall Avenue, including loans, interest due and a repayment amortization schedule for full repayment. The Redevelopment Agency does not have an open consultant contract that enables us to request special reports. In order to secure consultant services a new contract would need to be established by County Purchasing and Contracting. However, fiscal consultant Rosenow Spevacek Group (RSG) recently completed work for the Redevelopment Agency that will aid in providing you with information regarding the repayment of AEF loans. Additionally, we are able to provide documentation from the County Auditor of all loans from the AEF to the Redevelopment Agency and interest accrued to date. We can also supply documentation of interest calculation requirements as well as current interest rate information. The Independent Auditor's Report from an audit of FY 03/04 Redevelopment Agency financial statements is also available. Each of these documents is detailed below and information regarding Redevelopment Agency bonding efforts underway to repay principal and interest due the AEF is also provided.

#### **Tax Increment Projections**

In FY 03/04 RSG was hired to provide Gillespie Field Redevelopment Project tax increment projections through FY 2031/32. Completing projections required that RSG review current annual lease rates for all master lessees and lease termination dates. Tax increment projections are included on the spreadsheet

labeled Attachment 7. It is important to note that these calculations were based on current development only and do not include anticipated tax increment revenue for any future development, such as the 70-acre Cajon Air Center leasehold. Additionally, while we have received proposals for Site 5 development and are currently reviewing options with two of the proposers, tax increment from these improvements was not estimated when RSG prepared their projections. Furthermore, the projections do not include increased tax increment that could be received from additional aircraft based at Gillespie Field as a result of future development.

In addition to tax increment projections, the Attachment 7 spreadsheet provides the estimated annual expenses that must be deducted from projected tax increment revenues before determining funds available to repay loans to the AEF. This includes RSG estimated payments for low and moderate-income housing and payments to four school districts required by a 1989 Settlement Agreement. These payments are directly related to the amount of tax increment revenue received by the redevelopment project area. Additionally, the spreadsheet includes bond debt service payments for the 1995 Redevelopment Agency bond issue, State Educational Revenue Augmentation Fund payments, and Redevelopment Agency administrative expenses estimated by staff. Based on these calculations, the estimated tax increment available annually through FY 2031/32 to repay AEF loans is displayed in the 9<sup>th</sup> column of the spreadsheet and cumulative funds available for loan repayments are provided in the final column. Again, it is important to note that the future development of airport property is expected to result in higher tax increment revenue and increased funds available to accelerate repayment to the AEF.

#### AEF Repayment

The scope of work for the RSG contract mentioned at the beginning of this letter included determining the bonding capacity of the Gillespie Field Redevelopment Project. In April, County Airports staff met with RSG and with the bond underwriters for the Redevelopment Agency's 1995 bond issue. Their preliminary assessment was that bonding to repay principal and interest owed the AEF is a viable option. Airports staff is currently working with the County's Capital Finance Manager to complete an application for financing that will be reviewed by the County's Debt Advisory Committee. However, detailed fiscal work is required to complete the application. At the recommendation of the Capital Finance Manager, Airports staff has requested a proposal from RSG to complete the application. Upon submittal of the application the Debt Advisory Committee will review the information and make a recommendation regarding moving forward with a bond issue. Please note that County Board of Supervisors approval is required in order for the Redevelopment Agency to incur any additional long-term obligations. Assuming approval is received, it is our

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understanding that the entire process will take approximately one year to complete. In the event the Redevelopment Agency does not sell bonds to repay AEF debt, a new consultant contract will be secured to provide tax increment projections that take into consideration planned future development. The contract will also require the fiscal consultant to provide an amortization schedule for completing loan repayment to the AEF.

#### Loan Documentation

A copy of the Auditor's debt schedule, which includes all AEF loans to the Redevelopment Agency (including loans for Marshall Avenue) and accumulated interest, is provided as Attachment 8. As you can see, funds loaned for Marshall Avenue roadway improvements are not segregated from other AEF loans to the Redevelopment Agency. Consequently, repayment of funds loaned specifically for Marshall Avenue are not tracked separately. To date, loans from the AEF to the Redevelopment Agency total \$9,636,247. It should be noted that in FY 03/04 the AEF received from the Redevelopment Agency the first loan repayment, which totaled \$225,000. Documentation of that repayment, which was provided to you on June 2, 2004, is included as Attachment 9. The Redevelopment Agency has budgeted \$500,000 for repayment to the AEF in FY 04/05.

#### Interest Calculation

You requested information regarding the interest rate on AEF funds loaned to the Redevelopment Agency for Marshall Avenue improvements. Specific direction regarding calculating interest for all loans from the AEF to the Redevelopment Agency was recorded in a December 1, 1987 resolution by the County Board of Supervisors, which specified, "interest shall accrue on the average quarterly outstanding balance equal to the average County earned investment rate as determined by the County Treasurer" (Attachment 10). The County Auditor's Office has advised that the estimated annual interest rate for FY 03/04 is 1.53%. This is an estimated number as the actual interest rate for the forth quarter will not be determined until the end of July. The attached debt schedule (Attachment 8) provided by the County Auditor's office confirms the following loan and interest information:

Loan balance due from Redev. Agency to AEF through 6/30/04*	\$9,411,875.30
Interest through 6/30/04**	\$4,115,380.18

\* Loan balance reflects total loan of \$9,636,247 less \$225,000 FY 03/04 repayment from Redevelopment Agency to AEF.

\*\* Interest figure includes accrued interest through 3/31/04 and Auditor estimated interest from 4/1/04 through 6/30/04. Actual interest for the fourth quarter of FY 03/04 will be posted at the end of July.

Independent Auditors Report

Be advised that an independent audit of Redevelopment Agency Financial Statements is completed annually. The audit completed for FY 02/03 by Moss, Levy & Hartzheim states, "[w]e conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement". Further, the audit findings state, "[i]n our opinion, the component unit financial statements referred to above present fairly in all material respects the financial position of the governmental activities, and each major fund of the Redevelopment Agency of the County of San Diego as of June 30, 2003." (Attachment 11, p.1). The principal and interest amount the Redevelopment Agency owed the AEF as of June 30, 2003, is documented on page 19 of the Independent Auditor's Report. Please note that \$9.6 million principal loan balance documented in the report was the principal amount owed at the end of FY 02/03 and does not reflect the \$225,000 loan payment made in FY 03/04.

**10. The county will provide evidence that the \$225,000 loan payment was deposited in the Airport Enterprise Fund (AEF).**

A copy of the Cash Transfer Journal prepared by the County Auditor's office, which was forwarded to AWP on June 2, 2004 and July 12, 2004, is provided as Attachment 9. This document confirms the transfer of \$225,000 from the Redevelopment Agency Gillespie Field Project to the AEF on 12/8/2003.

**11. The county will confirm the dates that the AEF will be reimbursed in full for loans made available to the County Redevelopment Agency to pay for capital improvements in the industrial and business park.**

As noted in the response to Item 9, in April County Airports staff met with RSG and with the bond underwriters for the Redevelopment Agency's 1995 bond issue. Their preliminary assessment was that bonding to repay principal and interest owed the AEF is a viable option. Airports staff is currently working with the County's Capital Finance Manager to complete an application for financing that will be reviewed by the County's Debt Advisory Committee. However, detailed fiscal work is required to complete the application. At the recommendation of the Capital Finance Manager, Airports staff has requested a proposal from RSG to complete the application. Upon submittal of the application the Debt Advisory Committee will review the information and make a recommendation regarding moving forward with a bond issue. Please note that County Board of Supervisors approval is required in order for the Redevelopment

Agency to incur any additional long-term obligations. Assuming approval is received, it our understanding that the entire process will take approximately one year to complete. In the event the Redevelopment Agency does not sell bonds to repay AEF debt, a new consultant contract will be secured to provide tax increment projections that take into consideration planned future development. The contract will also require the fiscal consultant to provide an amortization schedule for completing loan repayment to the AEF.

- 12. The county will provide evidence for the past six fiscal years to demonstrate that revenue from the industrial and business park is being regularly deposited in the Airport Enterprise Fund and only used for permitted airport purposes. The county will include a written certification attesting that it is the county's practice to regularly deposit these revenues in the AEF.**

The Board of Supervisors authorized the establishment of the AEF on May 6, 1980, to account for "airport revenue earned, expenses incurred and the allocation of net income for airport projects appropriated for the public's benefit....". The resolution states that the AEF was established as "the fund base for all operations, maintenance and capital costs of all Airports under the direction of the San Diego County Board of Supervisors". All expenditures are approved by the County Board of Supervisors through the adopted budget and mid-year adjustment process and are used only for permitted airport purposes. The resolution, which was forwarded to AWP on June 15, 2004, is included as Attachment 12.

All operating revenues, including those from industrial and business parks, are regularly deposited by the County Auditor's offices into the AEF. Attachment 13, which was forwarded in two parts to AWP on June 15, 2004, and June 28, 2004, provides copies of the County of San Diego Comprehensive Annual Report for the past six fiscal years. This report confirms deposits into the AEF and reflects expenditures as well. These statements have been audited by outside independent auditing firms. The Independent Auditors Reports are also included in Attachment 13.

You have requested "a written certification attesting that it is the County's practice to regularly deposit these revenues in the AEF". In response to our June 15, 2004, request for clarification, on June 23, 2004, Tony Garcia sent us a fax indicating that the certification could be a "statement similar to statements made by independent auditors when they prepare audit reports attesting to the integrity of their audit work and opinions."

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Enclosed for your reference is a copy of the final audited County of San Diego Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2003 (Attachment 14). Pages 5 through 11 contain a signed letter dated January 12, 2004, from the County Chief Financial Officer to the County Board of Supervisors certifying the integrity of these financial statements. Page 9, paragraph 4, states, "[w]e believe that the County's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions."

Mr. Garcia also asked for a complete AEF Financial Statement for the fiscal year that ended 2003. The County of San Diego Comprehensive Annual Financial Report for the Fiscal Year Ended June 30 (Attachment 14) includes all the countywide financial statements, including the AEF on pages 44, 46, and 48.

As indicated in our letter of June 29, 2004, we believe these documents will satisfy Mr. Garcia's requests.

**13. The county will provide evidence to confirm that the county will follow its own Airport Leasing Practices and avoid below-FMV rental rates in all future leases.**

As state in Item 7, a report on lease rates at County Airports is currently being prepared. The report will include information on current lease rates and detail the methodology for setting lease rates in the future. This methodology will be included in the draft County Airports Policy and Procedures. A draft of the County Policy and Procedures document will be sent to AWP for comment by October 30, 2004, as indicated in Item 8.

**Grant Assurances 29 Airport Layout Plan**

**14. The county and its consultant will work with FAA staff to complete the Draft Final ALP/Narrative Report as quickly as possible.**

As previously indicated under Item 1, the public review process for the ALP / Narrative Report has been completed. The document will be submitted to the San Diego County Board of Supervisors on September 22, 2004. At that time, the Board will be asked to approve submittal of a grant application for a Master Plan update for Gillespie Field. Regarding working with the FAA to complete the Final ALP/Narrative Report, these efforts are outlined in Item 1 above.

**Airport Traffic Control Tower Line-of-Sight and Part 77 Surface Penetration**

**15. The county will provide the date when the county will transmit survey data to the FAA Flight Procedures Office regarding hangars, 12, 13, 22, and 26.**

Survey data for hangars #12, #13, #22 and #23\*, including latitudes, longitudes and elevations for the northern roofline corners closest to runway 27L was provided to AWP on June 24, 2004. Copies of these documents are provided as Attachments 15 and 16. Please note that data points #1003, #1006, #1007 and #1010 are portions of the hangar's sliding door system and not the rooflines.

A copy of the survey data was provided to master lessee Bill Allen on July 7, 2004.

\*Note: We believe "hangar 26" referenced in your request is incorrect as there is no hangar 26 in this location. Therefore, we are providing the data for hangar #23.

**16. The county will ensure that hangar projects at McClellan-Palomar, Ramona, Borrego Valley, and Fallbrook Community Airpark are in compliance with Part 77 requirements before any construction begins.**

County Airports is taking multiple steps to ensure compliance with Part 77 requirements before any construction begins, including:

- Currently a stamp is used for the Airports Director's signature when signing off plans. Stamp information is being expanded to include text advising of the obligation to meet regulatory requirements and to provide an approved Form 7460-1. Additionally, signature requirements will be expanded to assure that the Airport Manager, Airport Engineer and Real Property staff are aware of and have reviewed any proposed development. A copy of language included on the stamp is provided as Attachment 17.
- A plan check procedure has been developed to help ensure all projects at County Airports are in compliance with Part 77 requirement before construction begins. A copy of the draft document, which was forwarded to Tony Garcia via e-mail on July 6, 2004, is provided as Attachment 18. Mr. Garcia's July 13, 2004 comments are currently being reviewed by staff and will be incorporated into the procedure. This procedure will be included in the Policy and Procedures document being developed by Sherry Miller, which is discussed under Item 8.

**Runway Safety Action Plan (RSAP)**

**17. The county will take action to curtail and eliminate Vehicle and Pedestrian Deviations at its airports and will inform AWP and the Runway Safety Program of its remedial action plan.**

Airport movement areas have been reviewed with the intent of separating vehicle traffic from these areas. For example, the recently approved ALP for McClellan Palomar Airport eliminates vehicle parking and automobile traffic from aircraft movement areas around the restaurant. Additionally, entry access changes to the fence line will redefine FBO parking for Jet Source and Palomar Airport Center, eliminating vehicles crossing taxiways.

In addition, County Airports has installed signage at Gillespie Field that prohibits pedestrian and vehicular traffic from crossing the runway. The message is depicted in international pictorial language due to the large non-English speaking population in San Diego County. (see Attachment 19). Signs at Gillespie Field are located on both sides of runway 17/35 where vehicle and pedestrian deviations are most likely to occur. A map of signage locations at Gillespie Field is included in Attachment 19.A Modification of Airport Design Standards form, which is currently being completed by Sherry Miller, will be submitted to AWP by July 20, 2004. Following receipt of AWP approval of our request for modification, two sets of these signs will also be installed at both Fallbrook and Ramona Airports.

Airports has also created a flyer (included in Attachment 19) that alerts pilots to runway incursions and points out that it is everyone's responsibility to prevent them. These flyers will be posted at all FBOs and at bulletin boards throughout San Diego County airports.

At the request of State Aeronautics, our Airports Safety Officer visited Montgomery Field to look at the airport entry / access control gates. We are currently evaluating this system for possible adoption at County Airports and will submit a request for grant funding if it is determined that runway incursion fencing will assist in eliminating vehicle and pedestrian deviations.

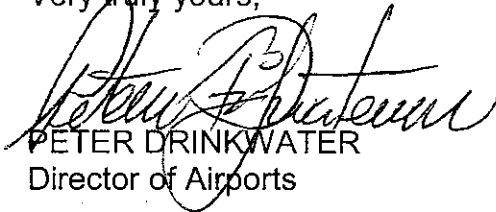
Finally, regarding your May 19, 2004 letter concerning vehicle / pedestrian deviation incidents, we are presently researching several of the recommendations for adoption and inclusion in Airports Policies and Procedures. A response to your letter is being prepared by Sherry Miller and will be forwarded to you by July 22, 2004.

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We appreciate the assistance we have received from your staff while implementing the changes detailed in this letter. Additionally, we thank John Milligan, Tony Garcia and George Buley for meeting with us July 14, 2004, to review our draft comprehensive response to your May 17, 2004, compliance advisory follow-up letter. Their recommendations are incorporated into our corrective actions detailed in this letter.

If you have any questions or require any additional information please contact Airports Program Coordinator Sunny Barrett at (619) 956-4834.

Very truly yours,



PETER DRINKWATER  
Director of Airports

PD:SB:jk

cc: w/encl.: Walt Ekard (A6); John Snyder (0332); Larry Watt (0334); Tom Bosworth (A12); William Withycombe, FAA, (AWP-1); Monroe Balton, FAA, (AWP-7); Don Walker, FAA (AWP-5); Tony Garcia, FAA (AWP-620.1); John Milligan, FAA (AWP-621); Austin Wiswell, DOT (MS#40); File (2)